

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

July 11, 2005

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section and audits performed by external firms for the quarter ending June 30, 2005.

Respectfully submitted,

Larry Walker
AUDITOR/CONTROLLER-RECORDER

By: _____
Howard M. Ochi
Chief Deputy Auditor

LDW:HO:wds

Attachments (5)



AUDIT REPORTS

**PREPARED BY INTERNAL AUDITS SECTION
AND OUTSIDE AUDIT AGENCIES**

FOR THE QUARTER ENDING

June 30, 2005

Office of

AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

PUBLIC SERVICES GROUP

Calico Regional Park Surprise Cash Count
Flood Control District
Flood Control District – Management Letter
Registrar of Voters – Management Letter

SPECIAL DISTRICTS

FIRE PROTECTION DISTRICT

Yucca Valley Fire Protection District – Management Letter

PARK AND RECREATION DISTRICT

Big Bear Valley Recreation and Park District – Management Letter

SANITATION

Water and Sanitation District – Management Letter

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Assistant County Clerk

November 26, 2004

Tom Potter, Chief of Regional Parks
777 East Rialto Avenue
San Bernardino, CA 92415-0041

SUBJECT: CALICO REGIONAL PARK SURPRISE CASH COUNT

Introductory Remarks

We completed a cash count, an audit of cash controls and County vehicle usage controls, and observed administrative staff's break times. In addition, a request was made to Risk Management to perform a surprise inspection of Calico's facilities to determine staff's safety practices and working conditions. Risk Management's findings have been incorporated into this report below. The audit was conducted pursuant to the authority granted under Article V, Section 6 of the San Bernardino County Charter and the Board of Supervisors' Policy Statement of Internal Operational Auditing.

Background

The audit was conducted on October 13, 2004 in response to a complaint received by the County's Fraud, Waste, and Abuse Hotline. The complainant alleged cash mismanagement, abuse of time and County vehicle use, and unsafe working conditions. Risk Management's inspection was conducted on October 12, 2004.

Audit Scope

Our audit included observations made on October 13, 2004 and audit testing that covered the period of July 2004 through October 13, 2004. The audit was made in accordance with the standards developed by the Institute of Internal Auditors and included determining compliance with the procedures outlined in the San Bernardino County Internal Controls and Cash Standard Practice Manual, in addition to Regional Parks' Cash Control Policy.

Audit Objectives

The audit was conducted to address allegations reported to the County's Fraud, Waste and Abuse Hotline. Following, are the allegations that were addressed regarding cash mismanagement; fraud, waste, and abuse:

- There is no accountability for cash funds and the shortages and overages are figured out later and replenished from a special hidden fund. This hidden fund is used for bookkeeping mistakes, which sometimes is hundreds of dollars.
- There is no segregation of duties – the same person who closes the gate, rings out the register at the end of the day and does the closing paperwork.
- All staff has access to the safe and many people have keys.

- Time abuse:
 - 80% of the work time in the office is spent socializing, not working.
 - Employees are late to work and then read the paper until 9 AM and then they go on break for 30-45 minutes when their shift begins at 7:30 or 8:00 AM.
 - Lunch periods last more than an hour instead of a half hour.
 - Breaks are never ending and sometimes staff leaves the park without returning or having to use personal leave. The park superintendent does not do anything about it because he joins them.
- Personal business is often handled on County time and in County vehicles. County vehicles are used to visit friends, transport family members and to move furniture.
- Safety is a big problem – inspections are announced ahead of time so not many problems are found.

Each allegation will be addressed together with the results of our audit test work. Both are discussed in the **Schedule of Findings and Recommendations** section below.

The audit, conducted for the limited purposes described above, would not necessarily disclose all material weaknesses in internal controls. A material weakness is a condition in which the design or operation of the specific internal control component does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur and not be detected timely by employees during the normal course of performing their duties. However, we noted matters involving internal control and its operation that we consider to be material weaknesses as defined above. Those matters are discussed in Findings 1, 3, 4, and 6 below.

This report is intended solely for the information and use of the Regional Parks Administrative Management and San Bernardino County Management and is not intended to be and should not be used by anyone other than these parties.

A draft report was sent to Regional Parks Administration on March 16, 2005 and was discussed with management on April 5, 2005. Regional Park's responses to our recommendations dated March 30, 2005 are included in this report.

Schedule of Findings and Recommendations

Finding 1: Calico's cash management controls could be improved.

To address the allegation that there is no accountability for cash funds and that the shortages and overages are figured out later and replenished from a special hidden fund, all cash funds of record and cash receipts on hand October 13, 2004 were counted—~~inquiry was also made for any additional funds not stored in the safe.~~ Based upon the evidence produced during the cash count, this allegation could not be substantiated.

As a closing-out procedure, Calico manually records daily cash receipts information from cash register tapes onto internal reports the next business day and then prepares the deposit slip (which will not include credit card charges). Exclusive of the credit card charges, all three of these documents should agree. During test work, it was noted that the information reported on the internal reports did not always agree with the information reflected on the cash register tapes or the deposit slips. For financial information reviewed on October 13, 2004, the following differences were noted between the cash receipts collected and counted:

A.) The internal reports reported \$137.00 more than the cash receipts collected and counted, and

B.) The bank deposit slip reported \$114.00 more than the cash receipts collected and counted.

This situation existed in other cash receipts testing and is also discussed in Finding 3 below. Of the items tested, it could not be determined how much revenue was actually collected on any given day because the information reported on the cash register tapes did not agree with the internal reports. It was also noted that several change funds had overages that were not deposited into the overage fund AOV as required by the County's Internal Controls and Cash Manual.

Reconciliations did not appear to be performed and financial information was not being properly reported. Staff could not explain differences between the cash register tapes, internal reports and deposit slips. In addition, not all cash registers were equipped to ring-in credit cards so alternative procedures or "work-arounds" were employed making it more difficult to follow the audit trail, i.e. determine credit card charges from cash register tapes and agree those charges to internal reports.

Finding 1: - Continued

To address segregation of duties and access to the safe, on the day of the field visit, segregation of duties appeared to be adequate in that separate individuals closed out the front gate and the cash transactions for the day. In reviewing internal reports and deposits, the preparer was Administrative staff and the work was reviewed by the Park Superintendent or his assistant. It was also noted that not all staff have keys to the safe and the 5 staff assigned keys were adequate and appropriate.

Recommendations:

In light of the on going cash management and cash loss issues that the parks continue to have, Regional Parks should consider increasing fiscal oversight, training and more surprise cash counts. The actual revenue that Calico brings in each day was not easily determinable when tracing the cash register tapes to internal reporting. It is important that Regional Parks Administration continue to set the tone for cash management improvements by enforcing adherence to cash management policies and procedures. Regular field visits will ensure that staff is properly trained and following procedures and will ensure that any problems are quickly resolved. Surprise cash counts should also be performed regularly and agreed to all forms of internal accountability. To determine compliance with procedures, internal reports should be reviewed and compared to cash register tapes and deposit slips for agreement.

Auditee's Response:

In reviewing the documentation provided from the audit against the internal documents, register tapes, bank deposits and credit card charges, it was discovered that two of the registers, #4 and #5, for the Maggie Mine and the Mystery Shack were not included in the audit count at the end of the day. The amounts for these registers were \$106 and \$31, respectively, and those amounts were included on the Park's internal report. It is believed that this is the difference of \$137 under A of Finding #1. Additionally, there were two cashiers on register #4, and one of the cashier's receipts for \$23 was not included in the bank deposit, but was on the internal report. This was caught by the park staff the next day, amended, and deposited in the next deposit. However, this paper error caused the bank deposit slip to be \$23 less than the internal report on the day that the audit was performed, which is the \$114 under B of Finding #1 ($\$106 + \$31 - \$23$). In addition to procedures in place at the parks, the Regional Parks' Administrative Office compares register tapes, banks deposits and internal reports weekly to ensure compliance with procedures. Any discrepancies are researched immediately. Had this paper error not been detected at the park, it would have raised a red flag when reconciling the weekly register tapes and deposits in the Regional Parks' Administrative Office.

Finding 1: - Continued

In response to the "work arounds" for registers not equipped to ring in credit cards, Regional Parks is aware that the park office cash register is not equipped for charges. If fees are paid in the office for camping by credit card, they are rung in as cash. This does not change the total revenue or accountability for revenue. However this does cause the register amounts for cash and charges to differ from cash and charges on hand. Although the accountability, and revenue collected, is also checked in the Regional Parks' Administrative Office against the register tapes each week, the Division understands that questions arise related to reporting differences.

To address this finding, the Regional Parks' Administrative Office will replace the office register immediately with a register capable of accepting credit cards. We will also conduct refresher training on correct register keying for cash versus checks and credit cards and all attempts will be made to report receipts exactly as collected to make internal reports match that of the register tapes and bank deposit slips. The Regional Parks' Administrative Office will continue to compare register tapes against the internal reports and verify bank deposits. Additionally, more frequent audits, including cash counts of all funds at the park, will be conducted at all the parks.

Finding 2: Safety regulations and policies were not strictly followed or enforced.

To address the allegation related to safety, Risk Management was contacted to perform a surprise safety inspection. The inspectors reported that, "overall, Calico has an operational problem in that employees 'just do what they want and it is tolerated by management. For example, there were "make shift" planks used instead of ladders. In addition, there were electrical cords strung across roofs. Management's attitude needs to change so that safety is foremost for its employees and customers. A lawsuit would be very costly for the County." Risk Management indicated that they would follow up with Regional Parks Administration.

Below is a list of safety issues discovered during Risk Management's inspection:

- Throughout the facility, extension cords were being used in unauthorized fashions. Electrical conduits should be used on swamp coolers and other roof top power demanding equipment.
- Unauthorized electrical connections were noted throughout the facility as well. This includes a spliced extension cord found powering a fixed light near the saloon and a live PVC rigged outlet behind some bushes in front of the saloon.
- There was significant water leakage on top of the buildings, which is causing property damage to the structures on the West.
- A makeshift plank system was found behind the facilities on the West, which subjects employees to significant fall hazards.

Finding 2: - Continued

- The maintenance shop lacks appropriate housekeeping.
- We found some other issues involving public safety as well. The mine needs emergency lighting and it is uncertain whether the train is running with a valid permit.

Recommendations:

It is important that Administration continue to set the tone for compliance with its safety program through its reinforcing adherence to safety policies and procedures. Incorporate regular safety training but most importantly reinforce strict adherence to safety policies and procedures through disciplinary action if necessary.

Auditee's Response:

Park staff was instructed not to use any unsafe power supplies, even temporarily and to avoid using any makeshift plank systems in the future. If power use is required, an electrician will be contracted with to hard wire the connections to provide power in an acceptable manner.

The water leakage noted on top of the buildings is caused by, and the responsibility of, the concessionaires contracting and operating concessions at the park. The park staff at Calico performs regularly quarterly safety inspections, and these inspections will now include the concession roofs. If a problem is detected, a written letter will be sent to the concessionaire, requesting that they fix the problem, with a deadline for complying.

Regional Parks conducts inspections with a Risk Management liaison at all the parks yearly, or more frequently if necessary. Emergency lighting has never been suggested or required for the mine. However, this will be discussed with Risk Management and the lighting will be supplied if needed.

The train is owned and operated by a concessionaire. However, it is Regional Parks practice to ensure that any concession operated in the park have a valid permit for operation. Currently, a valid operating permit is clearly displayed in the booth's upper right-hand window. Regional Parks will continue to ensure that this practice is adhered to.

Finding 3: Checks were not deposited timely, cash receipts were not deposited intact and deposits were not distributed timely.

A total of 5 deposits were tested for intactness (i.e. the total of cash and checks

Finding 3: - Continued

collected matches the total of cash and checks deposited). In all 5 of the deposits tested, cash and check totals did not agree between the deposit slip, the cash register tapes and the internal accountability reports. Some times the differences were more and sometimes the differences were less. In addition, there were 3 checks on hand that were issued in May and August of 2004. The checks issued in May were advertisement checks and the check issued in August was from a tour bus company. It was also noted that deposit distributions were not performed for up to six weeks after receipts were deposited.

Recommendations:

Conduct regular training sessions to ensure that all park administrative staff is adequately trained in cash handling and reconciliation procedures. Assign oversight responsibility to an employee who will regularly follow up with each park location to ensure that all administrative employees understand policies and procedures and are performing their duties correctly. Ensure that reconciliation procedures include having staff verify that cash, checks and credit card charges agree between the cash register tapes, the internal reports, and the deposit slip. Also, do not accumulate monies. Deposit all monies receipted daily or if small amounts are collected, deposit at least weekly. Finally, to make deposits available for operations and to give parks faster access to their money, distribute deposits more timely.

Auditee's Response:

It is not our policy to hold any checks or deposits. Park staff has been asked to immediately shred/destroy any unsolicited advertising checks if they are not going to enroll in the service, and make timely deposits of all park receipts. Frequent audits will be conducted at all the parks to ensure compliance with existing cash handling procedures.

Research of the 5 deposits that were tested for intactness showed that the differences were caused by the register that is not capable of ringing credit cards, and keying errors by cashiers. All deposits were compared and verified again against the register tapes and charge slips. Overall, cash receipts were correct but, without the charge slips, intactness cannot be verified.

As noted above, the Regional Parks' Administrative Office verifies all weekly revenue reports and compares them to bank deposits and register tapes. It has been our experience that the cash/check/charge total from the register tapes may sometimes differ because of the way the revenue was rung, but that the overall accountability for total revenue is correct, and internal reports do match the bank deposit slips. However, to ensure an adequate paper trail, Regional Parks will a) replace the office register

Finding 3: - Continued

immediately with a register capable of accepting credit cards, b) conduct refresher training to reiterate proper handling of cash, checks and charges, and their reporting, and c) initiate the requirement that revenue clerks at each park note any differences between the register tapes cash/check/charge totals and the actual cash/checks/charges on hand on the register tape to provide a proper audit trail. In addition, the Regional Parks' Administrative Office will conduct additional, regular audits and field visits to ensure that cash management controls are working as intended, and that staff is comfortable and competent in performing fiscal responsibilities.

Distributions are performed by Regional Parks' Administrative Office, by the receivable Fiscal Clerk II. Normally, all distributions are made within 10 days of the receipt and verification of the weekly financial reports from the parks. Delays in distribution could be caused if the receivable clerk is on vacation, sick, or temporarily backlogged. A back up receivable clerk is currently being trained to avoid delays in distribution.

Finding 4: Tour bus revenues are not properly reported and tracked.

All tour bus sales revenue should be included in Calico's daily accountability reports. Reconciliations should be performed between the tour bus vouchers, the number of tour bus customers entering the park gate and the amounts paid or invoiced. Bus vouchers did not match count totals from the gate's cash registers. Administration does not reconcile the number of customers entering the gate to the cash register tapes. Also the amounts invoiced to the tour bus companies are not always accurate or counted in daily sales. The sale, or revenue, is only recognized when payment is received. As such, tour bus sales are not correctly stated and without reconciliation between the tour bus vouchers, the number of tour bus customers entering the park gate and the amounts paid or invoiced, overages and shortages in tour bus receipts can go undetected.

Recommendations:

Implement and train staff on cash handling procedures for receipting tour bus revenues. Incorporate reconciliation procedures that ensure that the number of tour bus customers entering the gate agrees to vouchers and individual or group payments. In addition, establish an accounts receivable ledger according to the County's Internal Control and Cash Manual (Chapter 14) to maintain a record of gate entrance fees not paid.

Auditee's Response:

Regional Parks agrees with this finding. Tour bus revenue should be included in Calico's daily accountability reports. Currently, if a voucher is presented from the tour

Finding 4: - Continued

bus company, the tour bus revenue is not included in the daily sales until actual payment is received. This will be corrected immediately by having Calico ring in all tour bus sales on the date that the bus visits the park, which is when the revenue should be recognized. The daily accountability reports will be amended to account for the revenue, even if a voucher is presented.

Finding 5: The Daggett Pool Change Fund is not fully utilized.

There was an unused \$1,300 Daggett Pool Change Fund in the safe. One hundred dollars of this fund is used for the pool's change fund from Memorial Day to Labor Day. The remaining \$1,200 just lies idle in the safe year round. Idle funds can become lost or stolen and the money could be utilized for the park's operations.

Recommendations:

Decrease the Daggett Pool's Change Fund to \$100 according to the procedures in the County's Internal Controls and Cash Manual (page 4-5).

Auditee's Response:

Regional Parks agrees with this audit finding. Idle funds can become lost or stolen and the money could be utilized for park's operations. The Daggett Pool Change Fund is the only such cash fund not utilized in this manner. It was just decided that the Daggett Pool will not be opening on Memorial Day this year due to maintenance issues. In accordance with proper cash handling procedures, ACR Internal Audits section will be notified of the reduction, and a deposit form will be completed to deposit the Change Funds' cash per normal deposit procedures. To ensure a similar situation does not occur in the future, all cash funds will be monitored regularly for utilization and the cash amounts kept on hand will reflect the current utilization needs.

Finding 6: Non-cash receipting errors were being reimbursed through the Cash Difference Fund.

Some of the tour bus companies collect fees from their customers up front and the tour bus company will then pay the park one lump sum or ask the park to bill the company. When these customers enter the park, the count and charge is entered into the cash register. If the bus driver presents a voucher for later billing, the transaction is voided and the bus driver walks the voucher to the administrative office. When reviewing the Cash Difference Fund's Log, it was noted that in two instances a cashier forgot to void the cash register for these transactions and the shortage was reimbursed through the Cash Difference Fund. In addition, during the closing out process, other cash shortages

Finding 6: - Continued

were netted against overages and the net shortage was entered into the cash difference log. Reconciliations between cash receipted and the department's accounting system should be performed daily during the closing process. Cash shortages and overages should be properly processed according to County policy. Cash fund procedures were not followed and overages and shortages were not processed properly resulting in revenues and losses not being properly reported.

Recommendations:

Reconcile all tour bus vouchers to the cash register tapes at the end of each business day to ensure that all transactions are accounted for. Follow County procedures for cash shortages and overages. Overages should be deposited into the Cash Overage Fund (AOV) and the Cash Difference Fund should only be used to track cash shortages.

Auditee's Response:

At the time that Internal Audits conducted their audit, it was not our usual practice to ring in tour bus sales at the gate and then void the sale if a voucher is presented. Cashiers were ringing in sales only when the tour company was paying on that same day. If the bus company was paying by a voucher, the bus tour representative was sent to the office for payment. However, Regional Parks agrees with the audit report that tour bus revenue should be included in Calico's daily accountability reports. This will be corrected immediately by having Calico ring in all tour bus sales on the date that the bus visits the park, which is when the revenue should be recognized. The daily accountability reports will be amended to account for the revenue, even if a voucher is presented.

As far as reimbursements being made from the Cash Difference Fund for errors that were not voided, for buses or otherwise, Park staff has previously been instructed that only true cash handling errors, where the shortage cannot be determined (unrelated to fraud, embezzlement or theft), are to be reimbursed from the Cash Shortage Fund. Instructions had been given in accordance with normal cash handling procedures per Chapter 5, Cash Shortages and Losses, of the County's Cash Manual. The Regional Parks' Administrative Office is currently scrutinizing all Cash Difference Fund logs to ensure compliance, and at this time, we do not feel this is still occurring. However, further training will be conducted to ensure that all staff performing fiscal responsibilities at the parks is adhering to procedures outlined in the Cash Manual. Furthermore, the Regional Parks' Administrative Office will conduct additional, regular audits and field visits, at least every six months, to ensure that cash management controls are working as intended, and that staff is comfortable and competent in performing fiscal responsibilities.

Finding 7: Family and shopping admittance passes were not sequentially numbered.

The park issues free admittance family passes that are not pre-numbered. Family and shopping passes should be sequentially pre-numbered for accountability and tracked with a master log. Passes can be duplicated or stolen resulting in a loss of revenue for the park.

Recommendations:

Replace family and shopping passes with sequentially pre-numbered passes. Maintain a master log of the passes noting the number sequence available for each type of pass. The log should contain information on the date issued, the cashier the passes are issued too, (who is issuing the passes if applicable) and the number sequence of issued passes. Ensure that the shopping passes are checked back in and noted on the master list. Periodically, perform an inventory to ensure that the passes are all accounted for.

Auditee's Response:

Regional Parks agrees with this finding. Passes should be replaced with sequentially pre-numbered passes, and will replace the passes that are not pre-numbered immediately. However, Regional Parks would like to offer an explanation for this finding. Previously, all passes were pre-numbered, but the passes also included the year, and therefore expired. Upon expiration, all the passes had to be destroyed and new passes ordered. When replacing the expired passes, the park intended to leave off the year in order to eliminate wasting so many expired passes. Unfortunately, the pre-numbering was also inadvertently omitted. Nonetheless, the park was attempting to avoid loss of revenue from duplicated passes by collecting the passes from visitors at the gate upon use, and by tracking how many passes had been given to each store for distribution, and recording which store the visitors had received the passes from upon presentation.

Finding 8: County vehicle usage is not properly monitored.

To address the allegation that personal business is often handled on County time and in County vehicles, vehicle usage records were requested. It was noted that there were no vehicle usage records available on site for audit review so the allegation could not be proved or disproved. The park superintendent reported that there were no records available on site because they had been sent to Administration in San Bernardino. However, Administration reported that Fleet Management received the reports. Upon checking with Fleet Management, it was noted that they only receive mileage information every time the vehicle is fueled. There were no formal written policies in

Finding 8: - Continued

place for monitoring County vehicle usage. Unauthorized use can occur if usage is not monitored placing the County at risk and actual County business mileage is not properly measured.

Recommendations:

Implement the use of a log to track vehicle use. One master log or multiple individual logs can be used as long as they incorporate all of the park's vehicles in use and are turned in regularly (i.e. weekly) for the park superintendent's review. The logs should be kept on the premises (per the department's retention policies) and readily available for audit. The log should contain the date and time each vehicle is used, the beginning and ending miles each time the vehicle is used, the purpose for use, and the employee using the vehicle. Properly monitored vehicle usage will also aid in estimating more accurately yearly vehicle costs, reduce vehicle expenses, and reduce the County's risk of loss from unauthorized use.

Auditee's Response:

Regional Parks agrees with this finding. Vehicle usage needs to be reported and tracked to monitor County vehicle usage, and will incorporate the recommendations made in the report. Procedures are being written, and vehicle logs are being issued to each park for each vehicle that include the user's name, beginning and ending mileage (or hourly usage if applicable), and purpose of the vehicle's use. These vehicle usage reports will be used by all parks and submitted monthly to the Regional Parks' Administrative Office for review. Copies of the logs will also be kept at the parks for audit purposes.

Observations on Time Abuse:

In conjunction with the cash count, Administrative staff's work habits were observed as time abuse was a concern expressed by the complainant. The complainant alleged that employees were arriving late to work and then reading the paper until about 9 AM when their shift starts at 7:30 or 8:00 AM. After reading the paper, they go on morning break that is supposed to last 15 minutes but is taken 30 to 45 minutes. In addition, the park superintendent doesn't do anything about this fact because he joins them.

On October 13, 2004, Internal Audit staff arrived at Calico's Administrative Office at approximately 8:30 AM. Upon arrival, it was observed that there was a park employee, not an Administration employee, at one of the desks reading the paper and the superintendent was sitting at another desk. Introductions were made and the cash count was underway 15 minutes before the park employee left the office. During the

first hour of the cash count, several park employees came to the office but once seeing the auditors, they turned and left. The park employee sitting at the desk reading the paper returned twice during the day but left when she noted that the auditors were still present.

Based upon the auditor's observations, the complaint could be valid.

Recommendations:

Reinforce that employees observe work schedule start, break and stop times. As public servants, we have a duty to ensure that tax payer dollars are not wasted or abused.

Auditee's Response:

When asked about employee break times and staff observed in the park office, the Park Superintendent indicated that park staff adheres to their shift starting and ending times, and does not abuse break periods. The discussion with the Superintendent also revealed that sometimes the night security guards remain in the office at the end of their shift, occasionally reading the paper before going home. This appears to be a perception problem, and not actual time abuse.

In order to avoid the perception that employees are abusing tax payer dollars, a memo will be sent out immediately to all Regional Parks staff instructing employees to refrain from taking their breaks and lunches, or congregating off-duty, in any area where the public conducts business. There are employee break facilities or non-public access offices at every park location that can accommodate employees that are off-duty, on break or at lunch.

Acknowledgements

We appreciate the courtesy extended to us during the audit and wish to thank the management and staff for their full cooperation.

AudRpt/Tom Potter
Chief of Regional Parks
November 26, 2004
Page 14

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard M. Ochi, CPA
Chief Deputy Auditor

Copies to:

County Administrative Office
Board of Supervisors
Steve Robles, Risk Management
Grand Jury (2)

Audit file (3)

Date Report Distributed: 5-3-05

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COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY FLOOD CONTROL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder

January 20, 2005

**County of San Bernardino Special Districts
Flood Control District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

January 20, 2005

Patrick J. Mead, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY FLOOD CONTROL
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the County of San Bernardino Flood Control District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2004, which collectively comprise the Special District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 34 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker:
Auditor/Controller-Recorder

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)

Date Report Distributed: 4/15/05

LDW:BKR:CL:wds.1

**County of San Bernardino
Flood Control District
Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities Flood Control</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 60,801,532
Cash with fiscal agent	716,319
Restricted cash	123,743
Customer deposits	60,000
Accounts receivable	4,634,732
Interest receivable	263,075
Taxes receivable	1,296,267
Due from other governments	13,516,595
Total current assets	<u>81,412,263</u>
Noncurrent assets:	
Capital assets:	
Structures	425,843
Construction in progress	48,421,188
Infrastructure	305,542,978
Equipment and vehicles	10,395,555
Less accumulated depreciation	<u>(165,001,078)</u>
Total noncurrent assets	<u>199,784,486</u>
Total assets	<u><u>\$ 281,196,749</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,528,217
Salaries and benefits payable	584,460
Retention payable	1,937,948
Due to other governments	1,440,652
Capital leases - current portion	68,310
Deferred revenue	51,599
Loans payable - current portion	846,315
Customer deposits	342,420
Total current liabilities	<u>6,799,921</u>
Noncurrent liabilities:	
Capital leases	157,417
Employee compensated absences	1,397,447
Loans payable	<u>22,757,468</u>
Total noncurrent liabilities	<u>24,312,332</u>
Total liabilities	<u>31,112,253</u>
NET ASSETS	
Invested in capital assets, net of related debt	175,954,976
Restricted assets	123,743
Unrestricted	<u>74,005,777</u>
Total net assets	<u>250,084,496</u>
Total liabilities and net assets	<u><u>\$ 281,196,749</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Governmental Activities Flood Control
EXPENSES	
Salaries and benefits	\$ 10,140,867
Services and supplies	10,589,908
Professional services	8,787
Depreciation	6,926,925
Other charges	23,503
Interest	40,249
Total expenses	<u>27,730,239</u>
PROGRAM REVENUES	
Operating grants and contributions	23,525,259
Charges for services	<u>2,716,364</u>
Total program revenues	<u>26,241,623</u>
Net program revenue (expense)	<u>(1,488,616)</u>
GENERAL REVENUES	
Property taxes	22,541,621
Other taxes	1,252,388
Interest	1,198,859
Rents, concessions and royalties	1,158,115
Gain on sale of capital assets	1,079,087
Other revenues	177,073
Loss on disposal of assets	(2,228)
Total general revenues	<u>27,404,915</u>
Change in net assets	25,916,299
Net assets - beginning	<u>224,168,197</u>
Net assets - ending	<u><u>\$ 250,084,496</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Flood Control
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2004**

	<u>Governmental Activities Flood Control</u>
ASSETS	
Cash and cash equivalents	\$ 58,870,595
Cash with fiscal agent	716,319
Restricted cash	123,743
Customer deposits	60,000
Interest receivable	254,675
Taxes receivable	1,296,267
Due from other governments	13,467,586
Total assets	<u>\$ 74,789,185</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 1,460,090
Salaries and benefits payable	583,239
Retention payable	1,937,948
Due to other governments	1,439,854
Deferred revenue	51,599
Customer deposits	342,420
Total liabilities	<u>5,815,150</u>
Fund Balances:	
Reserved for encumbrances	17,271,933
Unreserved	51,702,102
Total fund balances	<u>68,974,035</u>
Total liabilities and fund balances	<u>\$ 74,789,185</u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Reconciliation of Governmental Balance Sheet
To Statement of Net Assets
Governmental Funds
For the Year Ended June 30, 2004**

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Fund balance	\$ 68,974,035
Internal Service Fund's working capital is combined into the Government-wide statement of net assets for reporting purposes.	1,918,200
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	199,784,486
Some current and long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund's Balance Sheet.	(25,226,957)
Long-term receivables related to capital assets are not receivable in the current period and are not reported in the Governmental Fund's Balance Sheet.	4,634,732
Net assets of governmental activities	<u>\$ 250,084,496</u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004**

	<u>Total Governmental Funds</u>
REVENUES	
Property taxes	\$ 22,541,621
Other taxes	1,252,388
Interest	1,162,778
Government aid and grants	24,206,574
Rents, concessions and royalties	1,158,115
Other revenues	177,073
Total revenues	<u>50,498,549</u>
EXPENDITURES	
Salaries and benefits	9,742,010
Services and supplies	9,188,410
Debt service - principal	681,315
Debt service - interest	35,896
Capital outlay	26,299,290
Total expenditures	<u>45,946,921</u>
Excess (deficiency) of revenues over (under) expenditures	4,551,628
OTHER FINANCING SOURCES	
Sale of capital assets	1,602,700
Loan proceeds from San Sevaine	1,442,539
Total other financing sources	<u>3,045,239</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	7,596,867
Fund balance - beginning	<u>61,377,168</u>
Fund balance - ending	<u>\$ 68,974,035</u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Fiscal Year Ended June 30, 2004**

Net change in fund balances-total governmental funds	\$ 7,596,867
Internal Service Funds net change in fund balance is "rolled into" the governmental fund's fund balance for reporting purposes on the Government-wide Statement of Activities. This is the amount by which the internal service funds net assets decreased.	(358,771)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	20,485,498
The net effect of various miscellaneous transactions involving capital asset disposals is to decrease net assets	(2,228)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,442,539)
Some expenses (i.e. employee compensated absences increase) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(362,528)
Change in net assets of governmental activities	<u>\$ 25,916,299</u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Statement of Net Assets
June 30, 2004**

	<u>Internal Service Fund Equipment Rental</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,930,937
Interest receivable	8,400
Due from other governments	49,009
Total current assets	<u>1,988,346</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	10,021,063
Less accumulated depreciation	<u>(5,279,221)</u>
Total noncurrent assets	4,741,842
Total assets	<u><u>\$ 6,730,188</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 68,127
Salaries and benefits payable	1,221
Due to other governments	798
Capital leases current	31,304
Total current liabilities	<u>101,450</u>
Noncurrent liabilities:	
Capital leases	36,088
Total noncurrent liabilities	<u>36,088</u>
Total liabilities	<u>137,538</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,674,450
Unrestricted	<u>1,918,200</u>
Total net assets	6,592,650
Total liabilities and net assets	<u><u>\$ 6,730,188</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Flood Control
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2004

	<u>Business-Type Activities</u>
	<u>Internal Service</u>
	<u>Equipment Rental</u>
OPERATING REVENUES	
Charges for services	\$ 2,716,364
Total operating revenues	<u>2,716,364</u>
OPERATING EXPENSES	
Salaries and benefits	36,329
Services and supplies	1,401,498
Professional services	8,787
Depreciation	1,113,133
Total operating expenses	<u>2,559,747</u>
Operating income (loss)	<u>156,617</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	36,081
Loss on sale of capital assets	(523,613)
Interest expense	(4,353)
Other nonoperating revenue (expense)	(23,503)
Total nonoperating revenues (expenses)	<u>(515,388)</u>
Change in net assets	(358,771)
Net assets-beginning	<u>6,951,421</u>
Net assets-ending	<u>\$ 6,592,650</u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004**

	Equipment Rental
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 2,719,448
Payments to employees for services	(36,305)
Payments to suppliers for goods and services	(1,375,420)
Net cash provided (used) by operating activities	<u>1,307,723</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(1,465,909)
Proceeds from the sale of capital assets	169,082
Principal paid on capital leases	(29,850)
Interest paid on capital leases	(4,353)
Net cash provided (used) by noncapital financing activities	<u>(1,331,030)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in fair value of investments	(23,503)
Interest	36,869
Net cash provided (used) by investing activities	<u>13,366</u>
Net increase (decrease) in cash and cash equivalents	(9,941)
Cash and cash equivalents - beginning	1,940,878
Cash and cash equivalents - ending	<u>\$ 1,930,937</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating income (loss)	\$ 156,617
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	1,113,133
Change in assets and liabilities:	
Decrease in receivables, net	3,084
Increase in accounts and other payables, net	34,889
Net cash provided (used) by operating activities	<u>\$ 1,307,723</u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Statement of Fiduciary Net Assets
Agency Fund
June 30, 2004**

	<u>1915 Act Bond Reserve</u>	<u>Best Management Handbook</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 493,814	\$ 20,376	\$ 514,190
Total current assets	<u>\$ 493,814</u>	<u>\$ 20,376</u>	<u>\$ 514,190</u>
 LIABILITIES			
Due to bondholders	\$ 493,814	\$ 20,376	\$ 514,190
Total liabilities	<u>\$ 493,814</u>	<u>\$ 20,376</u>	<u>\$ 514,190</u>

The notes to the financial statements are an integral part of this statement

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Flood Control District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established under Chapter 73 of the 1939 Statutes for the State of California. The District's powers are exercised through the Board of Supervisors (Board), which is the governing body for the County. The District maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within San Bernardino County. The District also works with the neighboring counties of Los Angeles, Riverside and Orange to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, administration, the internal service fund (equipment rental) and their related groups of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and the internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reporting Entity

Zone	Geographical Areas (Description)
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti. (277 square miles).
2	The central areas of the San Bernardino Valley east of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington. (315 square miles).
3	The east end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda. (393 square miles).
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett. (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake. (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twenty-nine Palms-Morongo Valley districts. (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES), which are reported with the Zones.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues and interest to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to nine months.

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenues funds* used in Zones 1-6, LADP and NPDES are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to these same limitations. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation

The government reports the following major proprietary funds:

The *internal service fund* labeled "Equipment Rental" accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency funds.

The 1915 Act Bond Reserve fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain flood control improvements. There is no outstanding bond liability at June 30, 2004; accordingly, the \$493,814 surplus is classified as *Agency Due to*. The surplus will be returned to Flood Control for the maintenance of the Bledsoe Creek Project.

The California Storm Water Best Management Fund is used to pay for costs associated with the update and revision of the State Best Management Practices Handbooks.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2004.

Receivables

All accounts receivable are shown net of an allowance from uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. dams, channels, drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land, structures and equipment and vehicles) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

Capital assets

	<u>Estimated Useful Lives</u>
Basins, storm drains, channels, dams	50 to 99 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
Internal Service Fund (Enterprise)	
Equipment and vehicles	productive hours

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2004 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$1,034,919	\$367,460	\$4,932	\$1,397,447

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the differences of \$20,485,496 are as follows:

Capital outlay	\$ 26,299,290
Special revenue depreciation expense	<u>(5,813,792)</u>
Change in net assets of governmental activities	<u>\$ 20,485,498</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government code of the State of California, commonly know as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2 – RESTRICTED CASH

Restricted cash consists of deposits received by the District from the Bureau of Reclamation for the Etiwanda / San Sevaine construction project that, per the loan agreement, are restricted for this project.

NOTE 3 – CAPITAL ASSETS

The cost of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives. For the Internal Service Fund (ICA), capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation expense is recorded annually in the Internal Service Fund. Capital assets for both governmental and business-type activities are as follows:

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 3 – CAPITAL ASSETS - Continued

	Balance July 1, 2003	Increases	Decreases	Ending Balance June 30, 2004
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$22,845,606	\$26,289,380	(\$713,798)	\$48,421,188
Total capital assets, not being depreciated	22,845,606	26,289,380	(713,798)	48,421,188
<i>Capital assets, being depreciated:</i>				
Buildings	425,843	-	-	425,843
Channels, drains, dams, basins	304,829,180	713,798	-	305,542,978
Vehicles	31,703	-	(31,703)	-
Equipment	280,082	168,245	(73,835)	374,492
Total capital assets being depreciated	305,566,808	882,043	(105,538)	306,343,313
Less accumulated depreciation for:				
Buildings	(273,213)	(8,041)	-	(281,254)
Channels, drains, dams, basins	(153,462,549)	(5,784,254)	-	(159,246,803)
Vehicles	(31,703)	-	31,703	-
Equipment	(243,910)	(21,497)	71,607	(193,800)
Total accumulated depreciation	(154,011,375)	(5,813,792)	103,310	(159,721,857)
Total capital assets being depreciated, net	151,555,433	(4,931,749)	(2,228)	146,621,456
Governmental activities capital assets, net	174,401,039	21,357,631	(716,026)	195,042,644
Business-type activities:				
<i>Capital assets, being depreciated:</i>				
Vehicles	9,690,113	1,425,433	(1,222,576)	9,892,970
Equipment	87,617	40,477	-	128,094
Total capital assets, being depreciated	9,777,730	1,465,910	(1,222,576)	10,021,064
Less accumulated depreciation for:				
Vehicles	(4,665,071)	(1,108,716)	529,881	(5,243,906)
Equipment	(30,898)	(4,417)	-	(35,315)
Total accumulated depreciation	(4,695,969)	(1,113,133)	529,881	(5,279,221)
Business type activities capital assets, net	\$5,081,761	\$352,777	(\$692,695)	\$4,741,843

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 3 – CAPITAL ASSETS - *Continued*

At June 30, 2004 the District had \$ 48,421,188 in construction in progress for the following projects:

CONSTRUCTION IN PROGRESS

Zone	Description	Total CIP By Project	Totals By Zone
1	West State Street Drain	\$11,307,577	
1	Etiwanda San Sevaine Jurupa Ave RCB	5,372	
1	Etiwanda Debris Dam	2,825	
1	English Canyon	2,760	
1	West Fontana Channel	263,432	
1	Carbon Canyon Channel	3,677	
1	Sultana/Cypress Storm Drain (phase 2)	200,851	
1	Riverside Dr. Storm Drain Segment #2	8,078,287	
1	County Line Channel (storm drain)	1,964,152	
1	County Line Channel	1,665	
1	Ely Basin #3 Nose Pier	60	
1	Hermosa Turner Storm Drain	1,692,934	
1	County Line Channel	1,562	
1	Sultana Interceptor (phase 2)	7,640	
1	Turner Basin #3	5,996	
1	Turner Basin	34	
1	Hickory Basin	1,481,967	
1	Etiwanda San Sevaine Bur of Reclam.	233,969	
1	San Sevaine Conservation Basin #5	10,079,845	
1	San Sevaine System	19,924	
1	SPPL Relocation	93,739	
1	San Sevaine Channel IID - Jurupa to Valley	116,615	
1	Etiwanda Levees	845,988	
1	San Sevaine RCB at Foothill	2,960	
1	Victoria Basin	19,130	
1	Etiwanda Channel	106,039	
1	Etiwanda Creek - Design & Construction	23,332	
1	E/SS SPPL Relocation	300	\$36,562,632
2	Cactus Basin #1 to Bloomington	386,579	
2	Rialto Channel Phase 2	22,038	
2	Rialto Channel Phase 3	4,529	
2	Randall Basin	11,756	
2	Rialto Channel	3,553	
2	Del Rosa Channel	12,878	
2	Linden Avenue Storm Drain	225,397	
2	Cactus Basin # 3	221,842	
2	Cactus Basin # 4	45,948	
2	Cacuts Basin # 5	43,453	
2	Rialto Channel (Ultimate Channel Design)	1,288,354	
2	West Fontana Channel	8,427	
2	Lytle Cajon Channel	34,723	
2	Sand Creek/Warm Creek	12,014	
2	San Timeteo	180,000	
2	Santa Ana River	526,912	
2	San Timeteo Creek Channel	218	
2	San Timeteo Creek Channel	287,508	3,316,129

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 3 – CAPITAL ASSETS - *Continued*

CONSTRUCTION IN PROGRESS (continued)

Zone	Description	Total CIP By Project	Totals By Zone
3	Sar Mitigation	495	
3	Wooly Star Biology	123,219	
3	San Timeteo Channel	1,393,388	
3	Seven Oaks Dam Tres Lagos Water	4,802	
3	San Timeteo Channel, Phase 3B	6,479,614	8,001,518
4	Waterman Road	796	
4	Oro Grande Wash Detention Basin	6,862	
4	Mojave River at I-15	100,838	
4	Hesperia Detention Basin	25,053	
4	Hesperia MPD	163	
4	Desert Knolls Wash	202,252	
4	Mojave Drive Channel	87,753	
4	Silver Lakes Levee	781	
4	Mojave River Levee Phase 2	66	
4	Hesperia Basin	1,245	
4	Antelope Creek Wash	22,148	
4	Mojave Narrows Park Drainage	1,605	
4	ChoiceanaOutlet @ Mojave River	9,992	
4	Kitchen Wash	1,089	460,643
5	Rim Forest Drainage	115	
5	Houston Creek	9,245	9,360
6	Old Woman Springs Wash	8,381	
6	Donnell Basin	31,628	
6	Sand Canyon Creek-BB	30,897	70,906
	Totals Zones 1-6, LADP, NPDES	<u>\$48,421,188</u>	<u>\$48,421,188</u>

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 3 – CAPITAL ASSETS - *Continued*

The District has active major construction projects as of June 30, 2004. The projects include new construction and renovations of dams, channels, basins and storm drains. At year-end the government's commitments with contractors are as follows:

Job Number	Project	Remaining Commitment	Financing Sources
F01452	West Fontana Channel	\$ 4,820	Government Aid and Property Taxes
F01709	Sultana Interceptor (phase 2)	7,000	Government Aid and Property Taxes
F01087	West State Street Storm Drain	3,101,703	Government Aid and Property Taxes
F01573	Riverside Drive Storm Drain	82,753	Government Aid and Property Taxes
F01569	Grove Avenue Detention Basin	1,102	Government Aid and Property Taxes
F01502	Etiwanda Levees	446,302	Government Aid and Property Taxes
F01193	Etiwanda/San Sevaine Channel/Basin	2,567,366	Government Aid and Property Taxes
F01700	Etiwanda Channel	600	Government Aid and Property Taxes
F01333	San Sevaine System	183,231	Government Aid and Property Taxes
F00998	Etiwanda San Sevaine Bureau of Reclamation	51,549	Government Aid and Property Taxes
F01669	Rialto Channel	320,647	Government Aid and Property Taxes
F01272	Cactus Basin #1 to Bloomington	119,120	Government Aid and Property Taxes
F01649	Linden Avenue Storm Drain	1,211,925	Government Aid and Property Taxes
F01152	San Timeteo Channel	91,872	Government Aid and Property Taxes
F01510	San Timeteo Channel, Phase 3B	11,016	Government Aid and Property Taxes
F01582	Desert Knolls Wash	35,864	Government Aid and Property Taxes
F01389	Mojave River	1,769	Government Aid and Property Taxes
	Total	\$ 8,238,639	

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 4 – CAPITAL LEASES PAYABLE

County Flood Control is leasing computer equipment, which is recorded in the Governmental funds, and six pick-up trucks, which is recorded in the Equipment fund. The District will acquire all rights and titles to the equipment and vehicles after the final lease payments are made.

The following is a schedule by year of future minimum lease payments as of June 30, 2004:

Year End June 30,	Governmental Activities	Internal Service Fund Equipment Rental	Total
2005	\$ 41,073	\$ 31,352	\$ 72,425
2006	44,806	34,202	79,008
2007	44,806	5,701	50,507
2008	37,339	-	37,339
Total Minimum Payments	168,024	71,255	239,279
Less: Amount Representing Interest	(9,688)	(3,864)	(13,552)
Present Value of Minimum Lease Payments	<u>\$ 158,336</u>	<u>\$ 67,391</u>	<u>\$ 225,727</u>

NOTE 5 – DEFERRED REVENUE

Deferred revenue represents amounts for the Etiwanda / San Sevaine project held in outside bank accounts where revenue recognition has not yet occurred. Deferred revenue is \$51,599 at June 30, 2004.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 6 – LOANS PAYABLE

Loans Payable consist of loans from the United States Department of the Interior, Bureau of Reclamation for \$12,804,051 for the Etiwanda / San Sevaine project and \$4,634,732 for the Day Creek project, the City of Loma Linda Redevelopment Agency for \$165,000, and the United States Army Corp of Engineers for \$6,000,000 for a grand total of \$23,603,783.

Flood Control entered into a loan agreement with the Bureau of Reclamation, for the construction of the Etiwanda / San Sevaine Creek Water Project. Amounts owed are determined annually until the project is completed (approximately 8 years) based on costs incurred but will not exceed \$20 million. After completion, the County has 15 years to pay back the liability along with 7% interest. The project was not completed as of June 30, 2004 and the final loan balance and repayment schedule for the \$12,804,051 has not been determined at this time.

Flood Control entered into a contract with the Bureau of Reclamation, for construction of the Day Creek Project. A subsequent agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency (Agency) provides the terms and conditions for repayment of the Bureau of Reclamation loan. Payments are reflected in Zone 1 as cash contributions (from the Agency) and debt service-principal (to Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2004, is \$4,634,732.

Flood Control entered into a contract to reimburse the City of Loma Linda Redevelopment Agency for the San Timeteo Creek Project. The County agreed to pay the City of Loma Linda Redevelopment Agency \$1,200,000 (interest free) over a four year period beginning in fiscal year ending June 30, 2002. The unpaid balance at June 30, 2004 was \$165,000.

Flood Control entered into a loan agreement with the United States Army Corp of Engineers for the San Timeteo Creek Project. The County has agreed to pay back the loan and accrued interest upon completion of the project. (Interest is to be determined by the Secretary of the Treasury upon completion of the project.) This project was not completed as of June 30, 2004. The unpaid loan balance at June 30, 2004 was \$6,000,000.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 6 – LOANS PAYABLE - Continued

The following is a schedule by year of future loan repayments as of June 30, 2004:

Year Ending June 30,	City of Loma Linda RDA San Timeteo Creek	Army Corps of Engineers San Timeteo	Dept. of Interior Bureau of Rec. San Sevaine	Dept. of Interior Bureau of Rec. Day Creek	Total
2005	\$ 165,000	\$ -	\$ -	\$ 681,315	\$ 846,315
2006				681,315	681,315
2007				681,315	681,315
2008				681,315	681,315
2009-2012		6,000,000	12,804,051	1,909,472	20,713,523
	<u>\$ 165,000</u>	<u>\$ 6,000,000</u>	<u>\$ 12,804,051</u>	<u>\$ 4,634,732</u>	<u>\$ 23,603,783</u>

NOTE 7 – LONG TERM OBLIGATIONS

A schedule of changes in long-term obligations of the District during fiscal year 2004 follows:

	Principal Outstanding June 30, 2003	Additions	Deletions	Principal Outstanding June 30, 2004	Amounts Due in One Year
Governmental Activities					
Capital Leases	\$ -	\$ 168,245	\$ 9,910	\$ 158,335	\$ 37,006
Compensated Absences	1,034,919	367,460	4,932	1,397,447	-
Loan-Bureau of Rec. San Sevaine	11,361,512	1,442,539	-	12,804,051	-
Loan-Bureau of Rec. Day Creek	-	5,316,047	681,315	4,634,732	681,315
Loan City of Loma Linda-Redevelopment	165,000	-	-	165,000	165,000
U.S. Army Corp of Engineers	6,000,000	-	-	6,000,000	-
Total Governmental	<u>\$ 18,561,431</u>	<u>\$ 7,294,291</u>	<u>\$ 696,157</u>	<u>\$ 25,159,565</u>	<u>\$ 883,321</u>
Business-Type Activities					
Capital Leases	\$ 97,241	\$ -	\$ 29,850	\$ 67,391	\$ 31,304
Total Business Type	<u>\$ 97,241</u>	<u>\$ -</u>	<u>\$ 29,850</u>	<u>\$ 67,391</u>	<u>\$ 31,304</u>

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 8 – CUSTOMER DEPOSITS

Customer Deposits represent amounts held by the District on behalf of customers that are required to make deposits for various projects that require rights of way and easements and access to water for construction purposes.

NOTE 9 – NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>	<u>Internal Service Fund Activities</u>	<u>Total</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2004			
Net structures, construction in progress, dams, channels, drainage systems, equipment and vehicles	\$ 195,042,644	\$ 4,741,842	\$ 199,784,486
Less: Loans payable on infrastructure and capital leases on vehicles and equipment	(23,762,118)	(67,392)	(23,829,510)
	171,280,526	4,674,450	175,954,976
Restricted for Etiwanda / San Sevaine project	123,743	-	123,743
Unrestricted	72,087,577	1,918,200	74,005,777
Total Net Assets	<u>\$243,491,846</u>	<u>\$ 6,592,650</u>	<u>\$250,084,496</u>

NOTE 10 – RETENTIONS PAYABLE

The District retains 10% of construction contracts until contracts are completed and approved. Some contracts require that the retention be deposited into an escrow account. For all others, the final 10% payment is not made until the work is completed and approved. At June 30, 2004, the District's Retentions Payable balance was \$1,937,948, of which \$716,319 was on deposit with an external fiscal agent while Flood Control held \$1,221,629.

NOTE 11 – DUE TO OTHER GOVERNMENTS

At June 30, 2004, the \$1,440,652 balance is composed of the following: \$1,137,308 due to Orange County as reimbursement for their fronted share of cost of the Seven Oaks Dam Project; \$302,546 is for vehicle rentals, equipment usage, and direct labor costs rendered by other governments; and \$798 is for enterprise fund labor direct charges and equipment accruals. The amount due for the Seven Oaks Dam project represents eminent domain deposits the courts placed with the District on behalf of the local county flood control district sponsors: the Counties of Riverside, San Bernardino and

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 11 – DUE TO OTHER GOVERNMENTS - *Continued*

Orange. This payment is the excess share of cost allocated to Orange County at the completion of the project. Riverside's share has been paid.

NOTE 12 – RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District
South Coast Air Quality Management District
Local Agency Formation Commission

The District and others covered under the plan are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 32639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age and classification (general and safety). Members are required to contribute 8.36% -13.46% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 8.90% of the current year covered payroll. During the year, the District paid \$850,581 to the plan as the Employer's share. Employee contribution rates were established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 13 – PROPOSTION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 14 – SELF INSURANCE

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$18.5 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported, and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 14 – SELF INSURANCE - *Continued*

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreements totaled \$45.7 million at June 30, 2004.

The claims liability of \$101.7 million reported at June 30, 2004 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2003 and 2004 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2002-03	\$95,288	\$30,685	(\$32,171)	\$ 93,802
2003-04	\$93,802	\$45,128	(\$37,221)	\$101,709

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2004**

NOTE 15 – TRANSFERS TO/FROM OTHER FUNDS

Interfund Transfers In/Out transactions are used to reimburse an operating fund, and/or transfer cash between operating funds and capital project funds. When aggregating data for the government wide Statement of Net Assets and the Statement of Activities, amounts between Internal Service Funds and Governmental Funds reported as interfund activity and balances in the fund financial statements are eliminated. For the year ended June 30, 2004, the District had the following interfund activities:

Between funds within the Governmental Activities:

FUND	PURPOSE	AMOUNT
RFA	553-Interfund Contribution	\$ 205,700
RFF	553-Interfund Contribution	88,600
RFL	553-Interfund Contribution	47,600
RFQ	553-Interfund Contribution	65,600
RFT	553-Interfund Contribution	5,400
RFV	553-Interfund Contribution	20,400
RFA	586-Interfund Contribution 04	205,700
RFF	586-Interfund Contribution 04	88,600
RFL	586-Interfund Contribution 04	47,600
RFQ	586-Interfund Contribution 04	65,600
RFT	586-Interfund Contribution 04	5,400
RFV	586-Interfund Contribution 04	20,400
RFA	799 Districts Share for ETI/SS	6,000,000
RFA	815-District Share of ETI/SS F	2,000,000
RFA	810-Interfund Contr to RFZ	205,700
RFF	810-Interfund Contr to RFZ	88,600
RFL	810-Interfund Contr to RFZ	47,600
RFQ	810-Interfund Contr to RFZ	65,500
RFT	810-Interfund Contr to RFZ	5,400
RFV	810-Interfund Contr to RFZ	20,400
RFG	848 San Timoteo Creek	692,814
RFG	849 Santa Ana River Mainstem	472,069
RFZ	553-Interfund Contribution	(433,300)
RFZ	586-Interfund Contribution 04	(433,300)
RFD	799 Districts Share for ETI/SS	(6,000,000)
RFD	815-District Share of ETI/SS F	(2,000,000)
RFZ	810-Interfund Contr to RFZ	(433,200)
RFM	848 San Timoteo Creek	(692,814)
RFM	849 Santa Ana River Mainstem	(472,069)
		<u>\$ -</u>

Required Supplementary Information
County Of San Bernardino Flood Control District
Budgetary Comparison Schedule – Special Revenue Funds
For The Fiscal Year Ended June 30, 2004

SCHEDULE 1

Flood Control	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance July 1, 2003	\$ 45,975,455	\$ 42,739,199	\$ 61,377,168	\$ 18,637,969
Resources (inflows):				
Property Taxes	21,333,025	22,385,100	23,794,009	1,408,909
Use of Money and Property	3,164,700	2,892,200	2,320,893	(571,307)
Other Governmental Aid	65,175,945	45,622,111	25,649,113	(19,972,998)
Charges for Services	248,400	89,100	177,073	87,973
Other Revenue	2,380,750	763,065	1,602,700	839,635
Amounts available for appropriation	138,278,275	114,490,775	114,920,956	430,181
Charges to appropriations (outflows)				
Salaries and Benefits	10,541,527	10,706,816	9,742,010	964,806
Services and Supplies	121,691,718	98,906,241	9,188,410	89,717,831
Other Charges	4,790,700	5,132,492	717,211	4,415,281
Capital Outlay	115,000	179,300	26,299,290	(26,119,990)
Reimbursements	1,139,330	(434,074)	-	(434,074)
Total charges to appropriations	138,278,275	114,490,775	45,946,921	68,543,854
Budgetary Fund Balance, June 30, 2004	\$ -	\$ -	\$ 68,974,035	\$ 68,974,035

COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

SCHEDULE 2

	TOTAL	ZONE						ADMIN	MISSION ZANJA	ETIWANDA DRAINAGE	BLED SOE CREEK	NPDES
		1	2	3	4	5	6					
ASSETS												
Cash in treasury	\$ 58,870,595	\$ 24,967,630	\$ 6,536,065	\$ 3,069,975	\$ 17,054,173	\$ 1,149,133	\$ 968,810	\$ 760,692	\$ 183,280	\$ 3,598,682	\$ 74,024	\$ 508,131
Cash with fiscal agent	716,319	716,319	-	-	-	-	-	-	-	-	-	-
Restricted cash	123,743	123,743	-	-	-	-	-	-	-	-	-	-
Customer deposits	60,000	60,000	-	-	-	-	-	-	-	-	-	-
Subtotal cash and investments	59,770,657	25,867,692	6,536,065	3,069,975	17,054,173	1,149,133	968,810	760,692	183,280	3,598,682	74,024	508,131
Interest receivable	254,675	107,160	31,179	13,341	71,668	5,176	4,127	3,039	771	15,088	311	2,815
Taxes receivable	1,296,267	612,142	232,565	138,095	172,150	15,505	48,844	76,966	-	-	-	-
Due from other governments	13,467,586	7,849,889	4,686,523	310,396	56,098	300,000	50,000	190,705	-	-	-	23,975
Total Assets	\$ 74,789,185	\$ 34,436,883	\$ 11,486,332	\$ 3,531,807	\$ 17,354,089	\$ 1,469,814	\$ 1,071,781	\$ 1,031,402	\$ 184,051	\$ 3,613,770	\$ 74,335	\$ 534,921

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 1,460,090	\$ 1,170,771	\$ 12,980	\$ 56,108	\$ -	\$ 24,993	\$ 8,482	\$ -	\$ -	\$ -	\$ -	\$ 186,756
Salaries and benefits payable	583,239	221,105	145,635	126,337	46,448	2,032	-	41,682	-	-	-	-
Retentions payable	1,937,948	1,826,208	89,942	-	-	-	21,798	-	-	-	-	-
Due to other governments	1,439,854	146,732	26,777	1,154,770	20,723	149	5,508	82,550	-	-	-	2,645
Deferred revenue	10,799	10,799	-	-	-	-	-	-	-	-	-	-
Customer deposits	66,420	66,420	-	-	-	-	-	-	-	-	-	-
Total liabilities	5,498,350	3,442,035	275,334	1,337,215	67,171	27,174	35,788	124,232	-	-	-	189,401
Fund Balances:												
Reserved for encumbrances	17,124,132	15,084,754	1,181,479	243,619	157,113	275,007	76,181	90,433	-	-	-	15,546
Unreserved	52,166,703	15,910,094	10,029,519	1,950,973	17,129,805	1,167,633	959,812	816,737	184,051	3,613,770	74,335	329,974
Total fund balances	69,290,835	30,994,848	11,210,998	2,194,592	17,286,918	1,442,640	1,035,993	907,170	184,051	3,613,770	74,335	345,520
Total liabilities and fund balances	\$ 74,789,185	\$ 34,436,883	\$ 11,486,332	\$ 3,531,807	\$ 17,354,089	\$ 1,469,814	\$ 1,071,781	\$ 1,031,402	\$ 184,051	\$ 3,613,770	\$ 74,335	\$ 534,921

COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

SCHEDULE 3

	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6	ADMIN	MISSION ZANJA	ETIWANDA DRAINAGE	BLED SOE CREEK	NPDES
REVENUES	TOTAL										
Property taxes	\$ 22,541,621	\$ 4,253,333	\$ 2,336,088	\$ 2,987,049	\$ 256,737	\$ 917,828	\$ 1,339,691	\$ -	\$ -	\$ -	\$ -
Other taxes	1,191,534	235,385	110,157	132,142	11,874	40,395	71,925	-	-	-	-
Governmental aid	25,649,113	5,266,359	289,177	60,728	5,405	19,244	271,876	-	-	-	650,150
Licenses, permits and franchises	60,854	21,764	8,480	2,570	-	-	-	-	-	-	-
Rents and concessions	322,877	147,346	1,649	22,563	-	8,295	-	-	-	-	-
Royalties	805,038	234,044	312	3,841	-	-	-	-	-	-	-
Interest	1,162,778	145,590	76,458	313,340	26,151	19,660	12,110	3,554	67,167	1,435	13,537
Other revenues	177,073	(135,417)	599,966	(218,612)	(19,323)	(23,337)	(17,447)	(2,196)	234,160	(887)	160,593
Total revenues	51,910,888	10,168,404	3,422,287	3,303,621	280,844	982,085	1,678,155	1,358	301,327	548	824,280
EXPENDITURES											
Salaries and benefits	9,595,802	2,367,220	1,511,686	784,856	72,335	488,853	1,323,724	-	-	-	153,859
Services and supplies	(147,434)	1,084,932	1,293,453	632,053	51,133	591,799	969,549	-	-	-	937,720
Debt services:											
Principal	681,315	-	-	-	-	-	-	-	-	-	-
Interest	35,896	-	-	-	-	-	1,292	-	-	-	-
Other charges	99,430	-	4,762	18,788	49,523	22,857	-	-	-	-	-
Capital outlay	35,479,272	2,472,733	3,324,286	165,720	-	18,572	25,010	-	-	-	-
Interfund transfers in (out) net	202,640	27,800	14,791	19,292	1,599	6,252	71,681	-	-	-	-
Total expenditures	45,946,921	5,932,685	6,148,978	1,620,709	174,590	1,128,333	2,391,256	-	-	-	1,091,579
Excess (deficiency) of revenues over expenditures	5,963,967	4,235,719	(2,726,691)	1,682,912	106,254	(146,248)	(713,101)	1,358	301,327	548	(267,299)
OTHER FINANCING SOURCES (USES)											
Operating transfers in	10,464,683	-	1,164,883	-	-	-	1,299,800	-	-	-	-
Operating transfers out	(10,464,683)	(1,430,683)	(142,800)	(196,700)	(16,200)	(61,200)	-	-	-	-	-
Sale of fixed assets	1,949,700	623,500	-	200	-	-	-	-	-	-	-
Total other financing sources (uses)	1,949,700	(807,183)	1,022,083	(196,500)	(16,200)	(61,200)	1,299,800	-	-	-	-
Excess of revenues and other financing sources over expenditures and other financing uses	7,913,667	3,428,536	(1,704,608)	1,486,412	90,054	(207,448)	586,699	1,358	301,327	548	(267,299)
Fund balance July 1, 2003	61,377,168	7,782,462	3,899,200	15,800,506	1,352,586	1,243,441	320,471	182,693	3,312,443	73,787	612,819
Fund balance June 30, 2004	\$ 69,290,835	\$ 11,210,998	\$ 2,194,592	\$ 17,286,918	\$ 1,442,640	\$ 1,035,993	\$ 907,170	\$ 184,051	\$ 3,613,770	\$ 74,335	\$ 345,520

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 20, 2005

Patrick J. Mead, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: MANAGEMENT LETTER – SAN BERNARDINO COUNTY FLOOD
CONTROL DISTRICT- FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District (the District) for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2004, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Based on the results of our audit, we identified four current findings. The current findings and recommendations are located under the heading "Current Findings and Recommendations."

STATUS OF PRIOR RECOMMENDATIONS

The recommendations contained in the prior audit report, dated October 3, 2003 relating to Finding 1 and 2 were adopted by the District.

CURRENT FINDINGS AND RECOMMENDATIONS

Finding 1: Cash receipts were commingled with an imprest fund.

The Internal Controls and Cash Manual states in Chapter 4, to "Never commingle the petty cash fund with cash receipts or any other cash fund." The Manual also states, "An authorized Change Fund is used exclusively by a cashier or clerk for making change while performing official County business."

The District does not have an authorized imprest cash fund. Flood Control commingles their cash receipts with Transportation's Petty Cash Fund, using it as a change fund.

If an error in cash handling occurs in processing a transaction for Flood Control, it may be reflected on Transportation's books because the cash account is accounted for by the Transportation Department.

Recommendations

Establish a change fund for Flood Control by following the instructions in the Internal Controls and Cash Manual (Chapter 4, page 4-3). Keep Transportation and Flood Control's cash separate for more accurate reporting and accountability.

Management's Response

Per your recommendation, we have established a change fund for Flood Control in order to keep Transportation and Flood Control's cash separate.

Finding 2: Receipts were not written immediately for checks received by mail.

According to Chapter 6 of the Internal Controls and Cash Manual, monies received by mail are to be receipted using an Official County Receipt "for the total of the items received". The person writing the receipt is to run a calculator tape and sign the tape to "acknowledge receipt of monies received by mail". The receipt is then to be attached to the calculator tape.

During a cash count, we found four checks totaling \$308 that were not receipted. Not receipting monies in a timely manner may leave the District's funds vulnerable to misappropriation or not properly included in revenues.

Finding 2: - Continued

Recommendations

Complete an Official County Receipt for all monies received by mail. Follow the procedures in the Internal Controls and Cash Manual (Chapter 6, page 6-7).

Management's Response

Departmental staff will be instructed to issue receipt as quickly as practicable when they open the mail. A copy of the Internal Controls and Cash Manual (Chapter 6) will also be provided to the staff so that they are more fully aware of County's cash receipting procedures.

Finding 3: Tangible assets were not properly disposed of or transferred.

County of San Bernardino Standard Practice 11-09SP governs the disposal or transfer of tangible assets. The following errors were discovered during the testing of Property Transfer Request Forms (16-5900-000):

1. Two tangible assets were sold without a Form 5900. The two assets were part of a camera van sold at auction. The District was unaware the tangible assets had different property tag numbers.
2. A vehicle (salvage value over \$10,000) was sold without having a Board of Supervisors' approval on a request for transfer of property. Historically the District has not requested Board approval to sell vehicles with a salvage value over the required limit.
3. A tangible asset being used by the Internal Service Fund was being accounted for in a Special Revenue Fund. The District was unaware the asset was being accounted for in the wrong fund.

Recommendations

Follow the County of San Bernardino's Standard Practice 11-09SP (Surplus Personal Property) that became effective on 7/01/2000 to dispose of or transfer tangible assets. Review the equipment and vehicle listing you receive from the Auditor/Controller-Recorder (ACR) and determine if the District's tangible assets are being accounted for in the correct fund and department. Transfer any tangible assets that are incorrectly listed using Form 5900.

Finding 3: - Continued

Management's Response

A copy of the Standard Practice 11-09SP (along with the location of County internal website where this Practice can be found) will be distributed to all Division chiefs so that the department employees can be reminded of County's policy regarding disposal and transfer of tangible assets. We will also scrutinize the inventory listing more closely in order to ensure accuracy in accounting and reporting of the District's equipment and vehicles.

Finding 4: Fixed asset closing procedures were not being followed.

Currently, the District submits an itemized worksheet of all Construction in Progress (CIP) at fiscal year end and does not provide a Form 7973 to the ACR for the purchase or sale of land. It was noted that the construction in progress worksheet provided by the District contained the following errors for the period audited:

1. Expenses unrelated to asset construction were included as CIP
2. Maintenance or repairs or both were included as CIP
3. Cash transfers of approximately \$9 million were included as CIP

Any organizational unit involved in the purchase, construction, betterment, sale, demolition or receiving by gift of a fixed asset, must complete and submit to the ACR a Form 7973 (Notice of Acquisition, Change, Disposition and Completed Construction). In addition, capital expenditures on projects of \$5,000 and over relating to new construction and not completed by June 30 must be reported as construction in progress (CIP).

By not providing the ACR with the proper forms, the fixed assets and financial statements of the District's CIP and/or sale of land could be materially misstated.

Recommendations

Follow Fixed Asset Closing procedures in section VIII of the Fixed Assets Standard Practice Manual on pages 42-46. Require a senior District employee and/or Supervising Accountant to review and approve fixed asset documents submitted to the ACR. Maintain a detailed ledger for amounts reported as construction in progress.

Finding 4: - Continued

Management's Response

Departmental staff responsible for fixed asset transactions will be instructed to prepare proper forms and follow the Fixed Asset Closing procedures. CIP documents will be reviewed and approved before they are sent to ACR. We will also keep track of the reported CIP amounts.

We would like to express our appreciation for the cooperation and assistance provided to the auditors during our field visits.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Douglas P. Austin
Internal Auditor II

Quarterly Copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)
Flood Control

Audit file (3)

Date Report Distributed: 5-17-05

LDW:DPA:wds

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

April 12, 2005

Donna Manning, Registrar
Registrar of Voters
777 E. Rialto Avenue
San Bernardino, CA 92415-0770

SUBJECT: MANAGEMENT LETTER

We have reviewed the Certified Statements of Assets & Other Property Transferred reports dated November 19, 2004, for the Registrar of Voters Office. In performing our review of the petty cash fund transactions, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

These comments and recommendations are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

FINDINGS AND RECOMMENDATIONS

Finding One: The Petty Cash Fund is not properly replenished.

The County's Internal Control and Cash Manual (Chapter 4, Cash Funds page 4-5) requires that departments strive to maintain 75% of their cash fund's balance. The fund custodian is replenishing the petty cash account an average of every 3 months. If the petty cash fund is only replenished approximately once every three months, the Department may fail to have sufficient petty cash funds available when needed. The petty cash fund, which is presently authorized for \$1,000, fell below the required 75% or \$750 in the following months:

Finding One: - Continued

Month-Year	Balance	Percent of Balance remaining
Dec-03	371.58	37%
Jan-04	359.58	36%
Mar-04	561.82	56%
Apr-04	509.82	51%
May-04	229.82	23%
Jun-04	681.52	68%
Jul-04	628.66	63%
Aug-04	488.28	49%
Nov-04	618.05	62%

Recommendations

Establish procedures that ensure the petty cash fund is replenished when it falls below 75% or \$750.

Management's Response

Per your findings our office will properly replenish our petty cash fund by reviewing each month to assure that we have sufficient petty cash funds available when needed. We also have established a new internal cash handling procedure that has been included in our petty cash manual. This manual is available for review by your office if requested.

We wish to thank management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Donna Estes
Accountant II

Quarterly Copies to:

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Grand Jury (2)

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Date Report Distributed: 5-16-05

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

February 15, 2005

Peter Hills, Fire Chief/Fire Warden
County Fire Department
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: MANAGEMENT LETTER – YUCCA VALLEY FIRE DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of The Yucca Valley Fire District ("District") for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2004, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide

management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

FINDINGS AND RECOMMENDATIONS

Finding One: **Petty cash vouchers were not properly completed or authorized before purchases were made.**

The County's Internal Control and Cash Manual (Chapter 4 – Cash Funds Section 4-8) states that a petty cash voucher must be completed before a purchase is made. The voucher must state the purpose of the expenditure and must be authorized by a higher-ranking employee than the requestor before a purchase is made. There were eight instances where the District did not have an authorized signature approving the amount to be expended. Of those, there were three instances where no purpose for the expenditure was noted. The District did not use a standard voucher form; receipts were usually attached to sheets of paper with handwritten explanations. Without utilizing a proper voucher form, there is risk that funds may be spent for inappropriate and unauthorized items.

Recommendations

Follow the policies and procedures established in the County's Internal Controls and Cash Manual. Use a petty cash voucher form that specifies the date, purpose of expenditure and the amount to be expended along with an area for an authorized signature.

Finding One: - Continued

Management's Response

The District will follow the policies and procedures as defined in the County's Internal Controls and Cash Manual. The District has obtained and is using a petty cash form that specifies the date, purpose of expenditure, and the amount to be expended, along with an area for an authorized signature.

Finding Two: **The Petty Cash Fund is not replenished as frequently as required.**

The County's Internal Control and Cash Manual (Chapter 4, Cash Funds page 4-5) requires that departments strive to maintain 75% of their cash fund's balance. The fund custodian is replenishing the petty cash account approximately once a month. The authorized amount for the petty cash is \$500. During the months reviewed, the balance fell to \$355.56 in the month of November 2003 and fell to \$333.83 in the month of February 2004. This is below the required 75% cash fund balance. If the petty cash fund is only replenished once per month, the District may fail to have sufficient petty cash funds available when needed.

Recommendations

Establish procedures that ensure the petty cash fund is replenished when it falls below 75% or \$375.

Management's Response

The District will establish procedures that ensure the petty cash fund is replenished when it falls below 75% or \$375.

Finding Three: **Donations were not recorded into the Financial Accounting System (FAS).**

The District's personnel established an unauthorized bank account entitled "Yucca Valley Fire Equipment Fund" and obtained an employer identification number 95-2858855 from the IRS. The account was opened in order to deposit donations from other non-profit organizations as well as individual contributors. The deposited funds are then used to purchase needed supplies and equipment not provided by the County for the fire department.

Public donations collected by District employees at community functions for the Yucca Valley Fire Fighters or Yucca Valley Paramedics are deposited into this account. Also infrequent donations are received through the US mail and deposited into this account.

Finding Three: - Continued

The funds appear to be appropriately segregated from the other accounts that the District currently has, but the revenues and expenses are not recorded into the County's Financial Accounting System (FAS). The County's Internal Control and Cash Manual (Chapter 10, Receipts – Non County Funds page 10-2) requires that, "when a County employee receives monies on behalf of an outside agency, they must follow normal cash procedures." If any type of misappropriation were to occur due to lack of oversight, the department's public image could be damaged resulting in a loss of donations.

Recommendations

Obtain approval from the Board of Supervisors for the special purpose bank account. Follow the Procedures outlined in the Internal Control and Cash Manual Section 9-3 in establishing a bank account. The district must follow the receipting procedures by issuing an official County receipt any time funds are received. By utilizing FAS to deposit donations and issue payments, this allows for proper accountability of the funds entrusted to the District.

Management's Response

The District believes that the bank account in question is a non-profit account and that its owner, the Yucca Valley Firefighter's Association, is an approved non-profit organization. Management has requested documentation from various agencies, including the California Secretary of State, to determine the legal status of this account. If the organization has non-profit status, this bank account and the funds it contains are outside the scope of this audit. If it is found to not be an approved non-profit organization, the District will either close the account or have the Association file for non-profit status. No funds will be expended from the account until its legal status has been determined.

Response to Management's Response

The donations must be accounted for in FAS, irregardless of whether it is a non-profit account. The funds are collected by employees and housed at a County facility thereby placing liability with the county should any discrepancies occur.

Finding Four: **The District failed to obtain Board of Supervisor approval or properly account for a donated item valued over ten thousand dollars (\$10,000).**

County Policy 11-08SP requires Board of Supervisor approval for any gift having a value greater than ten thousand dollars (\$10,000). A set of AMKUS tools, with a value of \$11,101, was donated to the district, but has not been accounted for in their inventory

Finding Four: - Continued

listing or approved by the Board of Supervisors. The County's Fixed Assets Standard Practice Manual requires that equipment be recorded on the department's inventory listing by notifying the Auditor/Controller of additions on Form 5900. The Auditor/Controller then assigns a control number that is to be made visible on the surface of the equipment to assist in the ease of identification and inventory-taking. As a result, the tools were not properly accounted for in the prior year's Financial Statements.

Recommendations

Follow the County procurement policies and procedures by submitting and obtaining Board of Supervisor approval for the set of AMKUS tools received as a donation, and complete the required form 5900 to notify the Auditor/Controller of the addition of equipment.

Management's Response

This set of AMKUS tools was purchased by the Firefighter's Association in June of 2002. The District will request Board approval of the donation and ensure that the necessary paperwork is completed to notify the Auditor/Controller of the addition of equipment.

Acknowledgements:

We wish to thank management and staff for their full cooperation during the audit.

Mgmtltr/Peter Hills, Fire Chief/Fire Warden
County Fire Department
February 15, 2005
Page 6

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Donna S. Estes
Accountant II

Copies to:

Fire Dept. Administration,
Mark Bergthold

Quarterly copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)

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Date Report Distributed: 4/14/05

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 8, 2004

Tom Sutton, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: MANAGEMENT LETTER – SAN BERNARDINO COUNTY SPECIAL
DISTRICT – BIG BEAR VALLEY RECREATION AND PARK - FOR THE
FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Big Bear Valley Recreation and Park District ("District") for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2004, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related

costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Based on the results of our audit, we identified two recurring findings and two current findings. The recurring findings and recommendations are located under the heading "Status on Prior Recommendations". The current findings and recommendations are located under the heading "Current Findings and Recommendations".

STATUS ON PRIOR RECOMMENDATIONS

The recommendations contained in the prior management letter, dated March 19, 2004 relating to Findings 1, 2, 5, and 6 were adopted. Our recommendations for further action regarding the remaining findings are shown below:

Prior Finding #3 (March 2004): Cash management of bank account balances could be improved.

The County's Internal Control and Cash Manual (Chapter 7, page 7-2) states that deposits must be made at least weekly into the County Treasury. The District currently

Prior Finding #3 (March 2004): - Continued

has four checking accounts (Petty Cash, Latch Key Grant, Clearing, and Special Purpose). Activity revenues are deposited into the Special Purpose Account while zoo admissions and donations are deposited directly into the Clearing Account. Special Purpose funds are then deposited into the Clearing Account where collectively all revenues are finally deposited into the County Treasury.

The District is currently making deposits monthly or bi-monthly into the County Treasury. Because timely deposits are not made, the District's cumulative account balances exceed the FDIC insured limit of \$100,000. In addition, the District is not benefiting from higher interest rates available through the County Treasury. Union Bank's annual interest rate on checking accounts is approximately 0.10%.

Recommendations

Implement monitoring procedures to ensure that the cumulative account balances with Union Bank do not exceed FDIC limits. Make a deposit from the Clearing Account at least weekly into the County Treasury.

Management's Response

Monitoring procedures have been implemented to ensure that cumulative account balances with Union Bank do not exceed FDIC limits. Deposits are made weekly into the Clearing Account. The only benefit of interest to the District is through Union Bank, as the interest through the County Treasury is appropriated to pay off balances owed for use of Constitutional Advances.

Auditor's Evaluation of District's Response

The District is not addressing the issue of making weekly deposits into the County Treasury as required by the Internal Controls and Cash Manual (page 7-2). Funds are kept in the District's clearing account to earn interest. However, by depositing the money in the Treasury the District will either earn a higher rate of interest (2.03% at June 30, 2004) or will reduce negative interest charges at the same interest rate. In either case, earning interest or reducing interest charges at a higher rate benefits the District.

Prior Finding #4 (March 2004): Imprest cash funds were greater than the authorized amount.

The County's Internal Controls and Cash Manual (Chapter 4, page 4-4) requires that Districts submit a written request to the Auditor/Controller-Recorder (ACR) Internal Audits Section to increase cash funds. The District has two cash funds (petty cash and

Prior Finding #4 (March 2004): – Continued

zoo change fund) with amounts greater than those authorized by the ACR due to cash overages and donations.

Recommendations

Review and follow the policies and procedures established in the County's Internal Controls and Cash Manual to process overages and to increase imprest funds. Immediately deposit all overages from the Petty Cash Fund into the Cash Overage Fund (Fund AOV) using revenue source code 9970 (other revenue). To increase the zoo's change fund, deposit the \$50 donation received from the Friends of the Moonridge Zoo into the County Treasury and submit a written request to Internal Audits per the County's Internal Controls and Cash Manual (page 4-4, Increase Cash Funds).

Management's Response

Recommendation implemented and complete.

CURRENT FINDINGS AND RECOMMENDATIONS

Finding One: Proper cash receipting procedures were not in place.

The County's Internal Controls and Cash Manual (Chapter 6, Cashiering Systems, page 6-4, 6-5, and 6-6) requires that a cash register or automated cashiering system must have the capability of printing transaction numbers in numerical sequence. In addition, the supervisor or fiscal clerk is to reconcile the daily count sheet to the cashiering system report. If there are any discrepancies in the reconciliation, they must be immediately researched and resolved.

The following problems were encountered during receipt testing of the Park and Zoo cash register deposit packages:

- No written procedures were available to demonstrate how deposit packages were prepared
- Receipts were not in sequential order from the end of the previous day to the beginning of the next day
- Sequential receipt numbers were not listed on the cashiering system report (Payment Distribution Report)
- Receipts from the automated cashiering system (ACS) were missing from the Recwear deposit package

Finding One: – Continued

- Recwear receipts for \$0 and voided transactions were not included in the deposit package
- Daily Zoo deposits did not agree to the corresponding cash register tape
- A Zoo deposit was missing a cash register tape

The District was not properly reviewing the deposit packages from either the Park or the Zoo. In addition, District staff is not fully aware of all of the alternatives that are available on the Recwear software included on the Park's ACS.

Recommendations

Establish written procedures for preparing deposit packages. Reconcile the daily deposit package using the Recwear receipts. Verify that all of the receipts are present in the daily deposit package and that they are in numerical sequence from one day to another. Immediately research and resolve any discrepancies in the deposit package. Add the daily receipt numbers to the different Recwear reports. Foot and cross-foot the Zoo deposit reports to make sure they match the cash register tape. Verify that a register tape is available for all Zoo deposits.

Management's Response

Daily deposits are reconciled using Recware receipts.

- Written procedures have been prepared.
- Receipts for voids and \$0 are included in sequential order and included in deposit package.
- The Administrative Clerk checks all Zoo deposits for accuracy of register tape.
- The Administrative Clerk checks all Zoo deposits for corresponding register tape.
- Staff is not aware of all alternatives available on the Recware registration software. The software is aged, been through several upgrades, with ambiguous manuals. The District has budgeted new registration software for fiscal year 05/06.

Finding Two: Revenues and expenses for individual activities were not reported in the County's financial accounting system.

The District established a Special Purpose Revolving Fund to implement and operate various recreational activities. As such, the District nets the revenues and expenses for park and recreation activities and deposits the net revenue into the County's Financial Accounting System (FAS). Over time, the dollar amount of revenues and expenditures have grown to material amounts. Good business practices require that revenues and expenses related to each individual activity be recorded separately into an entity's financial accounting system so they can be properly recognized.

Finding Two: – Continued

Recommendations

To recognize revenues and expenses separately, begin tracking the individual activities of the District by implementing the following steps:

- 1) Close the Special Purpose Revolving Fund checking account.
- 2) Deposit all revenues into the County Treasury.
- 3) Pay all expenses with payment vouchers.
- 4) Utilize general reporting category (GRC) codes to identify and track the various park and recreation activities.

Management's Response

We concur with the finding. The District intends to eliminate excess deposits and institute alternative means of operations to continue the District's services and programs to its constituents.

We would like to express our appreciation for the cooperation and assistance provided to the auditors during our field visits.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: Douglas P. Austin
Internal Auditor II
Internal Audits Division

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COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 6, 2004

Thomas L. Sutton, Director
Water and Sanitation District
Special Districts Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

SUBJECT: MANAGEMENT LETTER – WATER & SANITATION DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004

In compliance with Section 26909 of the California Government Code, we have audited the accounts receivable of the Water and Sanitation Districts for the fiscal year ended June 30, 2004. In planning and performing our audit of the accounts receivables, we considered internal controls in order to determine our auditing procedures. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

FINDINGS AND RECOMMENDATIONS

Based on the results of our audit, we identified 2 recurring findings and 4 current findings. The recurring findings and recommendations are located under the heading "Status on Prior Recommendations" and the current findings and recommendations are located under the heading "Current Findings and Recommendations" below.

STATUS ON PRIOR RECOMMENDATIONS

The recommendation contained in the prior audit report dated October 31, 2003, relating to Prior Finding 1 was adopted. Our recommendations for further action regarding recurring findings 2 and 3 are shown below.

Prior Finding 2 (2003): Customer refunds are not being reviewed and refunded timely.

Prior Recommendation

Develop and implement written policies and procedures for handling customer refunds. Ensure that staff is aware and trained on the new customer refund process. In addition, ensure that overpayments are reconciled, validated, and refunded to customers in a timely manner. A supervisor should perform a review of the reconciliation and document the review. Follow the procedures of handling unclaimed overpayments outlined in the Government Code Sections 50050-50056.

Current Status

The District's Collections Officer started working on the credit balances beginning April 2004. However, during our audit we noted that the number of accounts with credit balances increased by 86. According to the District's records, there were 915 accounts with credit balances on June 30, 2004 compared to 829 accounts on June 30, 2003.

Further Recommendations

Given the close proximity of the issuance of our 2003 and 2004 reports, we recognize that the District has not had adequate time to fully implement our recommendations made in the 2003 report wherein we suggested that overpayments and/or credit balances should be reconciled and refunded to customers in a timely manner. By doing so, the number of accounts with credit balances would decrease. Priority should be given to closed accounts with credit balances since these accounts are most susceptible to unauthorized activity. Moreover, the District should consider adding another full-time or part-time position for a collections officer who can be dedicated to eliminating and following-up on credit accounts and collecting unpaid sewer and water fees.

Management's Response

The Water and Sanitation Division has implemented the Auditor's recommendations with the following results:

Status to Date: The Accounts Receivable Trial Balance – Credit Balance Accounts by District report dated January 30, 2005 lists 22 accounts with credit balances on closed customer accounts (an average on closed accounts with credit balances since June 30, 2004 indicates that 26 accounts will be closed per month) and accounts are being worked by the Collections Officer on a monthly basis.

Prior Finding 2 (2003): - Continued

Procedure Implementation: All credit balances on closed customer accounts for previous years have been:

- Refunded to the respective customers, or
- Moved to the district's trust account until the revenue holding requirement of three years has been met. At which time the revenue will be transferred to the revenue account Other Forfeitures pursuant to Government Code 50050 & 50056—as the customer's current location could not be identified.

Prior Finding 3 (2003): Cash handling procedures could be improved.

Prior Recommendations

Follow the policies outlined in the County Internal Controls and Cash Manual for Petty Cash Funds. To ensure that funds are available, the Petty Cash Fund should be reconciled monthly. The bank reconciliation should be reviewed and approved by a supervisor. Document the review and supervisor's approval process. In addition, ensure that sufficient and relevant data are maintained on file to provide an audit trail and to document evidence that a transaction took place. Immediately investigate missing cash drawer reports. Update petty cash procedures to prevent this type of error from recurring.

Also, develop and implement policies and procedures that provide reasonable assurance that the District's cash overages in the Petty Cash and Change Funds are tracked and are immediately deposited in the bank. Maintain a cash handling error log to keep track of each cashier's overages or shortages.

For cash shortages and losses, follow the cash shortage procedures outlined in the County's Internal Controls and Cash Manual.

Current Status

Not implemented. During our test work, the following conditions existed:

- We could not verify that the supervisor reviewed or approved the petty cash bank reconciliation.
- The District used the Petty Cash Fund to refund customer overpayments. Check 485 was issued for \$38.90 and Check 486 was issued for \$20.00. We did not observe that an exemption was provided by the Auditor/Controller-Recorder (ACR) to handle these kinds of transactions.
- There were two instances where the Petty Cash Fund Custodian approved the petty cash vouchers. We did not see written evidence of a supervisory approval.
- There was one instance where the Petty Cash Fund was used to reimburse an employee for a luncheon meeting. The reimbursement request was not approved by another employee of equal or higher rank.

Prior Finding 3 (2003): - Continued

- Cash overages were noted in the District's safe on July 20, 2004. We could not verify that these overages were deposited in the bank.
- The Cash Drawer "A" Report for July 31, 2003 was missing. As a result, we could not verify the amounts deposited in the bank to the amounts collected for that day.
- Daily cash receipts are counted in the District's break room in the presence of other personnel.

Further Recommendations

Given the close proximity of the issuance of our 2003 and 2004 report, we recognize that the District has not had adequate time to fully implement our recommendations in the 2003 report discussed above. However, we would like to reiterate the following:

- Comply with the County's Petty Cash Fund's policies. In addition, obtain approval from the ACR, General Accounting Section, to exempt the District from the County's Internal Controls and Cash Manual rules for using the petty cash checking account to pay refunds to customers when the amount due is equal to, or less than, the cost of issuing a warrant (\$25).
- Ensure that appropriate approval for all transactions is obtained before invoices and/or receipts are paid out of petty cash.
- Track cash overages and deposit them timely.
- Ensure that all reports are maintained to allow an independent person to validate transactions. Consider developing a regular backup schedule for all system transactions to ensure that transactions are preserved and reports can be generated for any particular date. Retain the backup tapes following the County's retention policy.
- Count cash in a secure area.

Management's Response

The Water and Sanitation Division has implemented the Auditor's recommendations with the following results:

- Petty cash bank reconciliation: the Accounting Technician receives the bank statement monthly, reviews the transactions on the statement and reconciles using the Quicken program. The reconciliation reports are printed and verified to the bank statement's ending balance and agreed to the check register. The Account Technician then initials the bank statement, attaches the checking account reconciliation report, notes any additional bank charges on the bank statement and forwards them both to the Business Manager for review. Once reviewed, the statement is filed with the Petty Cash Checking Account book.
- Audit Trail: upon receipt of an invoice (equal to or less than \$40.00) or a customer refund (equal to or less than \$25.00) fiscal staff reviews the documentation for accuracy. If a payment or refund is warranted, the Account Clerk I issues a petty cash check and attaches relevant documentation. The Account Technician verifies the information for accuracy and forwards these to the Business Manager for review/signature. This documentation, including a copy of the check, is included in

Prior Finding 3 (2003): - Continued

the request to reimburse the petty cash fund as well as a copy is kept on file. Invoices (greater than \$40.00) or customer refunds (greater than \$25.00) are processed per county procedure.

- Customer refunds out of petty cash. The Water and Sanitation District requested exemption for this process from the Auditor Controller/Recorder's, Accounting Manager, September 1, 2004 per the Auditor's recommendations.
- Petty Cash Vouchers. The fund custodian does not have the authority to sign petty cash checks. Therefore, all petty cash expenditures must be signed by an authorized petty cash signer, the Business Operations Manager.
- Employee Reimbursement: Management has discussed this with staff. No further occurrences have been noted.
- Cash overages held in the safe: A policy for handling cash overages has not been clarified to address the special needs of Special Districts/County Service Area District funds. Therefore the .82 cents remains in the safe. Division staff maintains a Cash Handling Error log as well as a Cash Drawer Balance Sheet.
- Cash Drawer A Report Missing: the Auditor Controller/Recorder's Office, Risk Management and the Sheriff's Department were notified of this occurrence per the Internal Controls and Cash Manual.
- Cash Receipts counted in the Break room: The Water and Sanitation District Office was under construction during the 2004 Receivables Audit, where these monies were previously counted in the Division's Library which was monitored by video. During construction, the Library was converted into offices and we reverted to the break room until video monitoring and a table was placed in the equipment room. The cashier, in conjunction with a second cashier verifies the days receipts. Personnel are required to stay with the drawer until it is turned over to the Fiscal Unit for deposit. Since completion of construction the drawers are counted in the equipment room which is video taped and alarmed.

CURRENT FINDINGS AND RECOMMENDATIONS

Finding One: Accounting principles were not consistently applied.

The concept of consistency assumes that financial information is consistently based on the same generally accepted accounting principles for comparable information from period to period. In performing our review of accounts receivable and the controls related to revenue recognition, we noted the following:

- The method used in calculating delinquent amounts was not consistent with the prior year's methodology.
- There were no delinquencies recorded in CSA 70, Zone L despite its sizeable receivable balance as management deemed that it was not necessary since the rate increase was not implemented until September.
- The accruals for billed receivables did not agree with the District's records.

Finding One: - Continued

Failure to apply accounting principles in a consistent manner may result in the misstatement of revenues and non-conformity with generally accepted accounting principles.

Recommendations

We commend the District for implementing our preliminary recommendations concerning the above. However, we would like to reiterate the importance of ensuring that adopted principles be consistently applied. Further, ensure that personnel who are responsible for estimating revenues and delinquencies are aware of the methodology and are properly trained in its usage.

In addition, in the event that the adopted principles are no longer applicable due to a change in business practices, discuss the matter first with internal audit staff prior to implementation.

Management's Response

- Method in Calculating Delinquencies: Staff met with the ACR staff regarding the calculation of the delinquency factor and has adopted the resulting recommendations based on historical data.
- The year-end estimated revenues were adjusted to reflect the late implementation of the rate increase for Zone L that missed the highest usage months in the summer.
- Accrual Package: The accruals package is due to Special Districts 6/25, in order to comply with the deadline 5 days of receivables were not included in the original submission but were noted and balanced.

Finding Two: Staff duties were not properly segregated.

An effective internal control requires that no one person be assigned concurrent duties that would allow him or her complete control over a transaction or an asset. During our review of the District's internal controls, we noted that the Account Technician is authorized to update records, reconcile accounts, receive payments, issue receipts, approve and authorize transactions, and approve and pay petty cash reimbursements. Management stated that the Account Technician was given those duties due to insufficient staffing and staff absences. However, when duties are not segregated, errors and irregularities may not be detected and corrected during the normal course of business.

Recommendations

In order to avoid errors or irregularities, reorganize the assignment or duties of the Account Technician to ensure that one individual does not have control over all phases of a transaction. Ensure that the custody of receipts and petty cash funds are separated from record keeping, reconciliation of accounts, control of forms, and approval of transactions. Incorporate segregation into the District's written policies and procedures. If an employee must be authorized to perform incompatible duties, a mitigating control

Finding Two: - Continued

(i.e. supervisory review/approval) should be in place to provide reasonable assurance that errors or irregularities are identified and corrected.

Management's Response

The Water and Sanitation Division would like to make a distinction between authority and duty. While the Account Technician has the authority to exercise various processes to accommodate gaps in staffing or emergency situations it is the Business Manager duty to carefully maintain segregation of these duties.

Finding Three: Procedures for collecting non-county funds were not followed.

County policy requires that all monies received on behalf of an outside agency be physically safeguarded. Collections must be transmitted safely and deposited promptly into an appropriate bank account. County policy also requires that all collections must be posted to an appropriate fund and revenue source using applicable codes and accounts.

The District collects connection fees on behalf of Victor Valley Wastewater Reclamation Authority (VWRA), a Joint Power Authority (JPA). CSA 64 and CSA 42 are members of the JPA. According to VWRA Ordinance No. 002, Section 3.05, CSA 64 and CSA 42 are authorized to collect connection fees from properties located within their jurisdictions. The connection fees collected are due and payable to VWRA no later than the last day of the next month.

During our test work, we noted checks totaling \$10,500 in the District's safe. Monies are kept in the safe until a representative of VWRA picks them up. The collections are not deposited into a County bank account nor are they recorded in a fund.

Because the VWRA cash receipts are not deposited promptly, the risk of loss or potential misappropriation increases.

Recommendations

Follow the procedures for non-county receipts outlined in the County's Internal Controls and Cash Manual. Deposit all collections promptly into an appropriate bank account and use applicable codes and accounts to track the receipts. Ensure that all funds are distributed to the outside agency via a FAS Payment Voucher or Request to Draw Warrant form and that all disbursement requests are supported by departmental records.

Management's Response

The Department will request authorization from the Board of Supervisors for this process. Assuming Board approval, the documentation will be forwarded to General Accounting and the Internal Audit Section.

Finding Three: - Continued

Auditor response to Management

The Water and Sanitation's process regarding VVWRA cash receipts conflicts with the Internal Controls and Cash Manual Chapter 10 (non County Funds) and chapter 3 Cash

Controls. The Internal Controls and Cash manual states "the Board of Supervisors grants certain county employees the authority to collect funds " and " When county employees receive monies on behalf of outside agencies, they must follow normal cash control procedures. " The Internal Controls and Cash Manual require the following:

Do not accumulate large amounts of cash. Cash must be deposited by the next business day or if small amounts are collected, deposited weekly. (Chapter 3)

- All collections must be transmitted safely and deposited promptly and intact into appropriate banking accounts. (Chapter 10)
- Departments must be able to specifically identify the outside funds. If possible, separate the funds physically and use distinct systems codes and accounts. (Chapter 10)
- Funds must be distributed to the outside agency via a FAS Payment Voucher or Request to Draw Warrant form. (Chapter 10)

Finding Four: Cash receipting procedures could be improved.

Effective internal controls ensure that:

- All transactions and pertinent events are accurately and properly recorded in the District's records.
- Supervisor approval must be obtained to void receipts or transactions at the time of occurrence.

The District encodes checks received from the mail prior to deposit and then uploads them, into their billing, receipting system. During our testing of cash receipts, we noted that the number of check stubs processed on February 19, 2004 did not agree to the number of transactions uploaded. The batch reports indicated that 409 check stubs were processed. However, the cash receipts journal indicated that only 408 transactions were uploaded. Further review of the batch reports indicated that transaction #29 in batch #806 was deleted or voided by the District. We did not find documentation to support the missing transaction and management could not explain what happened.

Because cash receipt activity is not being properly reviewed and corrected, the District could lose revenue and customer accounts may not be properly credited.

Recommendations

Implement procedures that include a review and reconciliation of the data transfer. Also, follow the receipting and voided receipts procedures outlined in the County Internal Controls and Cash Manual. Cashiering transactions that require voiding should be

Thomas L. Sutton, Director
Water and Sanitation District
October 6, 2004
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Finding Four: - Continued

reviewed and approved in writing by a supervisor at the time the transaction occurs. If a supervisor is not available, it is further recommended that a co-worker be permitted to approve the voiding of small dollar transactions. The circumstances when a co-worker can review and approve the voiding of another employee's transaction should be addressed in the written procedures.

Management's Response

The Auditor's recommendations have been implemented with the following results: staff runs a report prior to any changes being made and if changes are required they are noted with the reason why.

We appreciate the courtesy extended to us during our audit and wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Copies to:

Lisa Manning, Division Chief
Water and Sanitation Division

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